

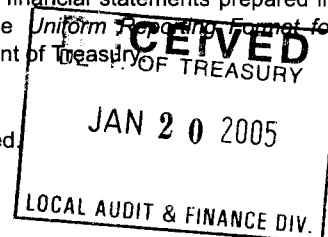
**CRAWFORD COUNTY
TRANSPORTATION AUTHORITY
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2004**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Crawford County Transportation Authority	County Crawford
Audit Date 9/30/04	Opinion Date 12/2/04	Date Accountant Report Submitted to State: 1/18/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson & Decker, P.C.			
Street Address P.O. Box 746	City Roscommon	State MI	ZIP 48653
Accountant Signature 		Date 1/18/05	

CRAWFORD COUNTY TRANSPORTATION AUTHORITY

Board of Directors

Ruth O'Mara

Dennis Long

Lee Riley

Brian Hulbert

Jeannette Kitchen

Fred Schaibley

Lynnette Corlew

Executive Director

David Frederick

CRAWFORD COUNTY TRANSPORTATION AUTHORITY

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CRAWFORD COUNTY TRANSPORTATION AUTHORITY

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Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

245 Lake Street • P.O. Box 746 • Roscommon, MI 48653
(989) 275-8831

INDEPENDENT AUDITORS' REPORT

December 2, 2004

Board of Directors
Crawford County Transportation Authority
4276 W. North Down River Road
Grayling, Michigan 49738

We have audited the financial statements of the business-type activity and major fund, which collectively comprise the basic financial statements, of the Crawford County Transportation Authority as of and for the year ended September 30, 2004, as listed in the table of contents. These statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the Crawford County Transportation Authority as of September 30, 2004, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In Accordance with Governmental Auditing Standards, we have also issued a report dated December 2, 2004, on our consideration of the Crawford County Transportation Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grants.

Page 2
Board of Directors
December 2, 2004

The management's discussion and analysis on pages 3-5 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Crawford County Transportation Authority basic financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004

The Board of Directors of the Crawford County Transportation Authority & Interested Members of the Public:

Ladies & Gentlemen:

This narrative overview and analysis of issues associated with operations conducted by the Crawford County Transportation Authority, for the fiscal year ended September 30, 2004, is presented in conjunction with, and considered part of, the system's Annual Compliance Audit prepared by Anderson & Decker, P.C., Certified Public Accountants.

System Issues

Fiscal Year 2004 was on the whole a good year for the CCTA. First, and foremost, the system did not experience any form of major vehicular accident or incident which resulted in personal injury to either a CCTA passenger or member of the general public. '*Personal Injury*' free years don't just happen. They result from good policies, appropriate training and strong employee commitment. Credit is due to all those who contributed to this outcome.

Policy Issues

The last revision of the CCTA Employee Policy Manual was printed and distributed on August 18, 1998. Now is an appropriate time to consider revision and updating that document. Future revisions of CCTA policy manuals should be divided into two components. One of those relating to "Employment Policies" and the other to "Operating Policies". Currently these two related, but nevertheless separate and distinct, policy categories are included within the same document.

Financial Position & Related Issues

As of September 30, 2004 the financial status of the CCTA remained sound. In this regard, the CCTA possesses sufficient financial resources such that if all State and Federal operational support were to be temporarily terminated, the CCTA would be able to: (1) continue operations for a period of time between six and eight months; and (2) have sufficient resources remaining at the conclusion of those efforts to do an orderly and responsible program shutdown (assuming those revenue sources were not reinstated). An orderly and responsible program shutdown is operationally defined as a cessation of efforts to provide transportation services which would not leave financial obligations of the Authority unmet.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2004

Financial Position & Related Issues (continued)

There are, however, changing revenue and expenditure patterns which do have the long term potential to fundamentally impact the overall financial status of the Crawford County Transportation Authority in a negative manner. Foremost among the adverse 'revenue' trends, is the continuing decline in State Operating Support. The 'rate' at which State Operating Support is provided for public transit programming has steadily declined over the last several years, and the cumulative amount of those declines is very significant. To wit: "The State Operating Support rate being used in Fiscal Year 2005 is 38.43% of eligible expenditures. This rate will result in a *reduction of revenues exceeding \$100,000 per annum for the Authority* when compared to the State Operating Support that would be received if the rate used in Fiscal Year 2000 (47.55%) was either reinstated or remained in effect."

On the 'expenditure' side of the issue, there are three line items that require particular attention. Those being: (1) 'Health Insurance'; (2) 'Liability Insurance'; (3) 'Fuel & Lubricants'. Again using Fiscal year 2000 as a base year for comparison, the rate of increase in cost for each of these three line items (Fiscal Year 2004), has been 190.2%, 144.5% and 77.9%, respectively. *In Fiscal Year 2004 the actual amount of expense across these line items exceeded the comparable Fiscal Year 2000 cost by \$128,988.* Once again, this is a financial contingency which is both significant and adverse.

These revenue and expense patterns require close monitoring by both program management and the Board of Directors. If these adverse patterns do not, within the next twelve to twenty-four months, prove to be self correction and cyclical in nature, then fundamental program modifications will be required if the system is to maintain financial integrity.

Personnel Issues

CCTA employees as a group are relatively well compensated, when compared to other transit programs operation in this geographical area. And relatedly, steps have been taken over the years to blur the distinction between the level of compensation and fringe benefits provided for full and part-time employees. These two program policies have substantively contributed to the generally high state of morale exhibited by CCTA employees. Optimal morale in turn contributes to positive outcomes and enhanced program productivity.

It has been in excess of five years since any employee of the Authority has left the system for the purpose of taking employment elsewhere. The general state of employee morale, and the system's demonstrated ability to retain employees, are circumstances for which the Board of Directors should be justifiably proud.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2004

Pension Issues

It is the opinion of CCTA management that the privatization of the Municipal Employees Retirement System (MERS) of Michigan was an action which will ultimately have long term and profoundly negative consequences for participating municipalities and individual members alike.

Management strongly recommends that the CCTA Board of Directors:

1. Takes positive and affirmative steps to insure that the '*Actual Market Value*' of the contributions made to MERS on behalf of CCTA employees remains approximately equivalent to the CCTA's '*Accrued Liabilities*' as calculated by MERS actuaries (i.e., the '*Actual Market Value*' not be allowed to fall more than 2.5% below the system's '*Accrued Liabilities*'. Alternatively, the CCTA's '*Accrued Liabilities*' should not be allowed to exceed the *Actual Market Value*' of contributions by more than 2.5% of the system's annual payroll. Whichever is the lesser of the two differences should be the operative amount.)
2. Direct all auditors, conduction compliance audits for the CCTA, to give particular attention to pension related issues and the continuing viability of the CCTA's participating in the MERS Defined Benefit Pension Program.
3. Direct CCTA management to continue monitoring expenditure patterns detailed in MERS audits and report the result of that review on not less than an annual basis.

Litigation Issue

The Crawford County Transportation Authority is not currently involved in any form of litigation. The CCTA is also not currently contemplating commencing a legal action against any individual, group, agency or corporation. And finally, management is not aware of any individual, group, agency or corporation that has either plausible reason or has threatened to bring suit against the Authority.

David C. Frederick
Executive Director

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF NET ASSETS
ENTERPRISE FUND
SEPTEMBER 30, 2004

ASSETS

Current Assets:

Cash	\$ 871,505
Investments	395,723
Due from State - MDOT	54,833
Accounts receivable, net	20,746
Inventories	8,306
Prepaid expenses	<u>48,837</u>

Total Current Assets 1,399,950

Property and equipment,
less accumulated depreciation 1,046,516

Total Assets 2,446,466

LIABILITIES

Current Liabilities:

Accounts payable	10,023
Accrued liabilities	95,891
Deferred revenue	<u>762</u>

Total Current Liabilities 106,676

NET ASSETS:

Contributed capital	206,694
Retained earnings	
Designated for trial application	1,000
Undesignated	<u>2,132,096</u>

Total Net Assets \$ 2,339,790

The accompanying notes are an integral part of the financial statements.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
ENTERPRISE FUND
YEAR ENDED SEPTEMBER 30, 2004

Operating Revenues	
Charges for services	
Fare box and special fares	\$ 232,935
Charter	3,123
Vehicle maintenance	3,022
Other	<u>208</u>
Total operating revenues	<u>239,288</u>
Operating Expenses	
Salaries and wages	649,845
Fringe benefits	238,966
Materials and supplies	115,829
Services	45,362
Utilities	22,477
Casualty and liability insurance	45,502
Miscellaneous	3,090
Depreciation	228,014
MERS past service costs	<u>30,258</u>
Total operating expenses	<u>1,379,343</u>
Operating income (loss)	<u>(1,140,055)</u>
Non-operating Revenues (expenses)	
Property taxes	324,097
Federal	128,361
State - Demand response	506,956
State and Federal capital grants	222,903
Interest/investment income	10,729
Loss on sale of fixed assets	<u>(2,106)</u>
Total non-operating revenues	<u>1,190,940</u>
Change in Net Assets	50,885
Net Assets - October 1,2003	<u>2,288,905</u>
Net Assets - September 30, 2004	<u>\$ 2,339,790</u>

The accompanying notes are an integral part of the financial statements.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR YEAR ENDED SEPTEMBER 30, 2004

Cash flows from operating activities	
Cash receipts from operations	\$ 242,217
Cash payments for supplies and services	(240,301)
Cash payments for employee services and fringes	<u>(925,123)</u>
Net cash provided (used) by operating activities	<u>(923,207)</u>
Cash flows from noncapital financing activities	
Property taxes	324,097
Federal operating grants	181,541
State operating grants	<u>563,207</u>
Net cash provided (used) by noncapital financing activities	<u>1,068,845</u>
Cash flows from capital and related financing activities	
Federal/State capital grants	219,123
Purchase of fixed assets	(273,518)
Gross proceeds from sale of assets	<u>10,850</u>
Net cash provided (used) by capital and related financing activities	<u>(43,545)</u>
Cash flows from investing activities	
Purchase of investments	(3,972)
Investment income	<u>10,729</u>
Net cash provided (used) in financing activities	<u>6,757</u>
Net increase (decrease) in cash and cash equivalents	108,850
Cash and Cash Equivalents - October 1, 2003	<u>762,655</u>
Cash and Cash Equivalents - September 30, 2004	<u>\$ 871,505</u>

The accompanying notes are an integral part of the financial statements.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF CASH FLOWS
ENTERPRISE FUND (CONTINUED)
FOR YEAR ENDED SEPTEMBER 30, 2004

Reconciliation of operating income
to net cash provided by operating activities:

Operating income (loss) \$(1,140,055)

Adjustments to reconcile operating income
to net cash provided by operating activities:

Depreciation	228,014
Decrease (increase) in accounts receivable	2,929
Decrease (increase) in inventories	3,057
Decrease (increase) in prepaid expenses	(13,568)
Increase (decrease) in accounts payable	2,470
Increase (decrease) in accrued liabilities	<u>(6,054)</u>

Total adjustments 216,848

Net cash provided (used) by operating activities \$ (923,207)

The accompanying notes are an integral part of the financial statements.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUND
SEPTEMBER 30, 2004

Assets

Investments	\$ 5,917
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Total Assets	<u>5,917</u>
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Net Assets

Held in trust for Pension benefits	<u>\$ 5,917</u>
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The accompanying notes are an integral part of the financial statements.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUND
FOR YEAR ENDED SEPTEMBER 30, 2004

Additions

Interest and investment income	\$ <u>223</u>
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Total Additions	<u>223</u>
-----------------	------------

Deductions

Administrative fees	72
Distribution of benefits	<u>3,334</u>

Total Deductions	<u>3,406</u>
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Change in Net Assets	(3,183)
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Net Assets - October 1, 2003	<u>9,100</u>
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Net Assets - September 30, 2004	<u><u>\$ 5,917</u></u>
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The accompanying notes are an integral part of the financial statements.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE A - GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

DESCRIPTION OF OPERATIONS AND FUND TYPE

The Authority was organized in 1982, as successor to the Crawford County Public Transit. In 1998 The Authority reorganized under Act 196 of 1986 of the Public Acts of the State of Michigan. The Authority is a separate legal and administrative unit of government. The purpose of the Authority is to provide public transport services to the general public within Crawford County.

Fund financial statements are provided for enterprise and fiduciary funds.

The Authority Operations Fund is classified as an Enterprise Fund to conform to management requirements and State regulations. An Enterprise Fund is used to report operations that provide services which are financed by user charges, of activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes. Enterprise Funds use the accrual basis of accounting.

The Pension Trust Fund accounts for assets, liabilities and financial transactions of the Crawford County Transportation Authority Defined Contribution Pension Trust Fund. The Authority is the Trustee of the Plan which covers substantially all of its employees with two years seniority. The Pension Trust Fund uses the accrual basis of accounting. The Assets of the Authority's investment in the Municipal Employees Retirement System of Michigan (MERS) are not included in these financial statements

The following is a summary of the significant accounting policies of the Authority:

INVENTORY - Inventories of fuel, lubricants, tires, tubes and vehicle parts are recorded at cost, less estimated allowances for obsolescence, and are expended using the cost method. Obsolete inventory has been marked-down to its estimated market value. Inventories of office supplies and other similar items are recorded as an expenditure at the time of purchase.

FIXED ASSETS AND DEPRECIATION - Fixed assets acquired prior to 1982 are stated at salvage value. All other fixed assets are stated at cost. Fixed assets purchased with moneys furnished by the State and the U.S. Department of Transportation are secured by the State. These assets are, at the State's option, either returned to the State or otherwise disposed when retired. Depreciable fixed assets are depreciated over the estimated useful life of the assets on the straight-line method.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES - All compensated absences are recorded as an expense and a liability as they are earned.

CONTRIBUTED CAPITAL - Prior to October 1, 2000, proceeds received from the State and the U.S. Department of Transportation, in accordance with contracts to purchase fixed assets were credited to Contributed Capital and were not recorded as revenue. Depreciation of fixed assets purchased with these funds is charged against Contributed Capital.

PROPERTY TAXES - Property taxes are levied as of December 1 of each year and are due by the last day of the following February. The taxes are collected by the local units of government within the County and are periodically remitted to the Authority through the County during the collection period. The taxes are recognized as revenue in the year in which payment is due.

STATE AND FEDERAL OPERATING ASSISTANCE - Revenues from State and Federal operating assistance programs are recognized when earned rather than when received. Earned revenues from these sources are computed using the approved cost allocation principles and guidelines approved by the Michigan Department of Transportation.

COST ALLOCATIONS - The following are the major cost allocations used by the Authority and which have been approved by the State:

Building depreciation and utilities costs are allocated among operations, maintenance and administration based on the square footage utilized by each function.

Maintenance of Third-Party Vehicles - Expenses related to charges for maintenance of third-party vehicles are allocated as follows:

1. Labor and fringe costs are charged to third-party maintenance and bus maintenance based on direct maintenance hours charged to each.
2. Parts charges are based on original cost.
3. Supplies, utilities and depreciation costs are prorated between third-party maintenance and bus maintenance based on direct maintenance hours charged to each.

Charter - The charter rate is negotiated with each customer based on prior years operating expenses.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE B - CASH AND INVESTMENTS

Cash deposits are held at Citizens Bank, Chemical Bank West, Huntington Bank and Fifth Third Bank, both directly and through the Crawford County Treasurer's Common Cash Account. Cash on deposit held by the Crawford County Treasurer shares FDIC insurance coverage with all other assets held by the County Treasurer. The proportionate share of FDIC insurance coverage related to the Authority's cash and certificate of deposit held by the County Treasurer has not been determined.

Operations Fund investments are in Bank One Short Term Investment Fund for governmental entities, and American Express Mutual Funds.

Pension Trust Funds listed on the balance sheet are invested in mutual funds of the ICMA Retirement Corporation.

State statute authorizes investment of funds in obligations of the U.S.; certificates of deposits and savings and checking accounts with banks, savings and loan associations of credit unions which are insured with the applicable federal agency; commercial paper within the three highest rate classifications by two rating services, maturing not later than 270 days from date, to the extent of 50% of total surplus funds; U.S. or agency repurchase agreements; bankers' acceptance of U.S. banks; and mutual funds.

Cash of the Operations Fund is stated at cost which approximates market value. Investments of the Operating fund are stated at cost. Investments of the Pension Trust Funds are stated at market value.

Deposits

Insured - demand deposits and interest bearing accounts & certificates	\$ 354,207
Uninsured - deposits and certificates	456,303
Uninsured - (Cash with County) Common Cash	60,895
Petty cash	<u>100</u>
Total cash	<u>\$ 871,505</u>

	<u>Cost</u>	<u>Market</u>
Operations Fund Investments		
Uninsured, Uncollateralized, held by agent: Bank One Short Term Investment Fund for governmental units (currently 1.47%)	\$ 299,696	\$ 299,696
American Express:		
AXP Short Duration U.S. Government Fund	60,068	60,025
Equity Value Funds	<u>35,959</u>	<u>32,394</u>
Total Operations Fund Investments	<u>\$ 395,723</u>	<u>\$ 392,115</u>
Pension Investments ICMA Retirement Corporation	<u>\$ 5,917</u>	<u>\$ 5,917</u>

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Balance 10/1/03	Additions	Deductions	Balance 9/30/04
Land	\$ 27,005	\$ -0-	\$ -0-	\$ 27,005
Buildings	794,674	37,584	-0-	832,258
Construction	43,500	1,125	-0-	44,625
Buses	1,283,859	225,787	311,161	1,198,485
Operations equipment	63,949	3,780	-0-	67,729
Garage equipment	133,590	-0-	-0-	133,590
Office equipment	24,077	-0-	-0-	24,077
Computer equipment	59,025	5,242	8,523	55,744
Totals	<u>\$ 2,429,679</u>	<u>\$ 273,518</u>	<u>\$ 319,684</u>	\$ 2,383,513
Accumulated depreciation	<u>\$ 1,415,711</u>	<u>\$ 228,014</u>	<u>\$ 306,728</u>	<u>1,336,997</u>
Net property and equipment				<u>\$ 1,046,516</u>

Useful lives of depreciable assets are as follows:

Buses & rehabilitations	3-10 years
Operations equipment	5-10 years
Garage equipment	3-15 years
Office equipment	3-10 years
Computer equipment	3-7 years
Building	4-20 years

Assets totaling \$22,578 have been fully depreciated to a salvage value of \$7,323.

NOTE D - CONTRIBUTED CAPITAL

The Contributed Capital equity account represents funds provided by the Federal Government and the State of Michigan, to the Authority, to purchase buildings, buses and equipment. Depreciation on buildings, buses and equipment purchased with State and Federal Funds is charged against this account. Depreciation of fixed assets purchased with Contributed Capital for year ended 2004 was \$84,684 and residual value of fixed assets sold of \$5,800 were charged against this account.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE D - CONTRIBUTED CAPITAL (CONTINUED)

Effective for fiscal years beginning after July 2000, and for all subsequent years, all State/Federal Capital Grants will be recorded as revenue on the Statement of Revenues, Expenses and Changes in Retained Earnings. There were \$222,903 capital grants for the year ended September 30, 2004.

Contributed Capital balances as of September 30, 2000 have not been restated, and will continue to be amortized over the lives of the related fixed assets, until entirely depleted.

NOTE E - DESIGNATED RETAINED EARNINGS - TRAIL APPLICATION

During the year ended September 30, 1999, the Authority designated \$10,000 for support of the development of a non-motorized trail in the Grayling area. No moneys were spent during Fiscal Year 2004. The unexpended balance of designated retained earnings at September 30, 2004 is \$1,000.

NOTE F - PROPERTY TAXES

In August 1988 the voters of Crawford County approved a countywide property tax levy (renewal) of up to 0.75 mill to provide for the continued operation of the Authority. Net property taxes collected for the year ended September 30, 2004 were \$324,097.

NOTE G - MONEY PURCHASE PENSION PLAN

Monies remaining in the Money Purchase Pension Plan at September 30, 2004 belong to terminated vested employees. The plan is administered by ICMA Retirement Corporation. Distributions from the funds will be made upon termination of employment or upon retirement, or on or after normal retirement age of 65. Pension assets of \$5,917, at September 30, 2004, are invested in the mutual funds of ICMA Retirement Corporation. Each participant determines the type of mutual fund in which his/her assets are invested.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE H - MICHIGAN EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTION - On August 1, 1997 the Authority Board of Directors adopted a defined benefit plan of the Michigan Employees Retirement System (MERS). MERS, an agent, multiple-employer public employee retirement system, acts as the common investment and administrative agent pursuant to State of Michigan Public Act 427 of 1984, as amended, and the Constitution of the State of Michigan. The Authority's plan provides benefits for Normal retirement, Deferred retirement, Disability retirement, Non-duty death allowance, Duty-connected death allowance, and all employees of the Authority participate. All participating employees have received prior service credit from their date of hire. There is no vesting for the first 10 years, and 100% vesting after 10 years.

Employees are eligible for retirement upon attaining the age of 50, and have completed 25 years of employment service; at age 55 with 15 years of employment service; or at age 60 with 10 years of employment service.

FUNDING POLICY - The plan's funding policy provides for mandatory employee contributions at a rate of 4.8% of regular gross wages and employer contributions of 11.93% for the last three months of 2003, 9.53% from January through June 2004, and 10.92% from July through September, 2004. Employer contributions are based on a percentage of compensation projected into the middle of the calendar year.

The normal cost and amortization payment were determined using the entry age normal actuarial funding method. Actuarial assumptions include (a) projected salary and wage increases of due to inflation of 4.5% and from 0.0% to 4.16% based on merit and longevity, (b) a net long-term investment yield rate of 8%, (c) 1994 Group Annuity Mortality Tables.

Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over 34 years.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE H - MICHIGAN EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

ANNUAL PENSION COST - For the fiscal year ended September 30, 2004 the Authority's actual pension cost of \$66,141, was 11.93% of covered payroll for October, 2003 through December 2003, and 9.53% for January through June 2004 and 10.92% for July through September 2004. An additional amount of \$30,504 was paid to be applied against past service costs. Total payroll for the year ended September 30, 2004 was \$603,659.

Components of the Actuarial Accrued Liability at December 31, 2003 the last date of Annual Actuarial Valuation, are as follows:

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$ 356,847
Current employee contributions - including allocated investment income	257,249
Employer financed contributions - Including allocated investment income	<u>1,570,556</u>
Total Actuarial Accrued Liability	2,184,652
Net Assets Available for Benefits at Actuarial Value (Market Value \$2,036,348)	<u>2,230,129</u>
Unfunded Actuarial Accrued Liability	<u>\$ (45,477)</u>

For calendar year 2005 the Annual Required Contribution is \$47,988. The Amortization Factor Used was 0.0038.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE H - MICHIGAN EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

Trend information of Aggregate Accrued Liabilities follows:

Valuation Date	<u>2003</u>	<u>2002</u>	<u>2001</u>
Accrued Liabilities	<u>\$ 2,184,652</u>	<u>\$ 1,927,308</u>	<u>\$ 1,644,499</u>
Valuation Assets	<u>\$ 2,230,129</u>	<u>\$ 1,834,462</u>	<u>\$ 1,423,408</u>
Funded percent	<u>102</u>	<u>95</u>	<u>87</u>
Unfunded Actuarial Liability	<u>\$ (45,477)</u>	<u>\$ 92,846</u>	<u>\$ 221,091</u>
Unfunded Actuarial Liability as a Percent of Annual Payroll	<u>-0-</u>	<u>16</u>	<u>39</u>

NOTE I - RELATED PARTY TRANSACTIONS

The Authority provides transportation and vehicle repair services for certain departments of the County of Crawford. The services provided are billed on the same basis as charges to all other customers of the Authority.

The County appoints five of the seven members to the Board of Directors of the Crawford County Transportation Authority, and therefore, is considered to be a related party.

Billings to the County, and its related funds, for the year ended September 30, 2004 were as follows:

Transportation services	\$ 10,947
Vehicle repair	<u>2,898</u>
Total	<u>\$ 13,845</u>

NOTE J - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries as well as medical benefits provided to full-time employees. The Authority has purchased commercial insurance for medical benefits, disability, and workers' compensation; fleet, real and personal property coverage; and general liability coverage.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE K - COMMITMENTS - STATE LIENS

The Authority's facility is financed with both Federal and State funds. Part of the terms and conditions of the use of Federal and State funds is the requirement that the facility continue to be used for the purposes stated in the Authority's grant application, in perpetuity. Should the facility cease to be used for its stated purpose it will either revert to the Federal government or be sold and the proceeds divided proportionate to the original investment.

Most buses and a substantial amount of the equipment of the Authority have been purchased with State and Federal Grants. The Authority, by accepting those grants have accepted the obligation to use that equipment for public transportation purposes for the life of each asset. Remaining residual value, if any, must be returned to the State upon disposal.

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF CONTRIBUTED CAPITAL
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Balance October 1, 2003	<u>\$ 297,178</u>
Deduct:	
Depreciation of assets purchased from contributed capital	84,684
Remaining cost of assets sold	<u>5,800</u>
Total Deductions	<u>90,484</u>
Balance September 30, 2004	<u><u>\$ 206,694</u></u>

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF OPERATING EXPENSES BY FUNCTION
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>OPERATIONS</u>	<u>MAINTENANCE</u>	<u>GENERAL ADMINIS- TRATION</u>	<u>TOTAL</u>
Operating Expenses:				
Salaries and wages	\$ 508,290	\$ 37,173	\$ 104,382	\$ 649,845
Fringe benefits	202,191	16,976	19,799	238,966
Materials and Supplies	75,980	37,444	2,405	115,829
Services	4,721	8,958	31,683	45,362
Utilities	10,165	7,444	4,868	22,477
Casualty & Liability insurance	41,061	1,200	3,241	45,502
Miscellaneous	2,201	-0-	889	3,090
Depreciation	202,329	18,287	7,398	228,014
MERS past service costs	<u>-0-</u>	<u>-0-</u>	<u>30,258</u>	<u>30,258</u>
Total Operating Expenses	<u>\$ 1,046,938</u>	<u>\$ 127,482</u>	<u>\$ 204,923</u>	<u>\$ 1,379,343</u>

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
NET ELIGIBLE COST COMPUTATIONS OF DEMAND/RESPONSE OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	FEDERAL SECTION 5311 <u>02-0030/Z9</u>	STATE OPERATING <u>ASSISTANCE</u>
Operating Expenses:		
Salaries and wages	\$ 649,845	\$ 649,845
Fringe benefits	238,965	238,965
Materials and Supplies	115,829	115,829
Services	45,362	45,362
Utilities	22,477	22,477
Casualty and Liability insurance	45,502	45,502
Miscellaneous	3,090	3,090
Depreciation	228,015	228,015
MERS past service costs	<u>30,258</u>	<u>30,258</u>
Total operating expenses	<u>1,379,343</u>	<u>1,379,343</u>
Less ineligible expenses:		
Depreciation funded by grants	192,399	192,399
Board per diem	6,850	-0-
Audit	3,600	-0-
Other disallowed	<u>458</u>	<u>458</u>
Total ineligible expenses	<u>203,307</u>	<u>192,857</u>
Net eligible expenses	<u>1,176,036</u>	<u>1,186,486</u>
Less Project revenue:		
Charter	3,123	3,123
Vehicle Revenues	<u>666</u>	<u>666</u>
Total project revenue	<u>3,789</u>	<u>3,789</u>
Eligible expenses for reimbursement	<u>\$ 1,172,247</u>	<u>\$ 1,182,697</u>
Section 5311		
Reimbursement 10.95%	<u>\$ 128,361</u>	
State operating assistance (42.23%)		<u>\$ 499,453</u>



Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

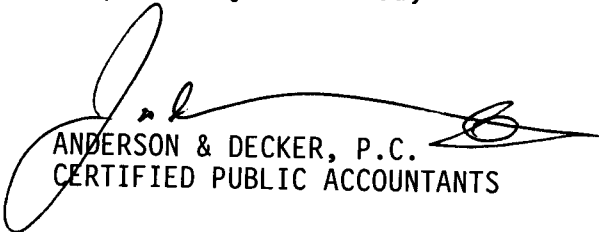
245 Lake Street • P.O. Box 746 • Roscommon, MI 48653
(989) 275-8831

December 2, 2004

Board of Directors
Crawford County Transportation Authority
4276 W. North Down River Road
Grayling, Michigan 49738

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours and number of passengers transported for the twelve months ended September 30, 2004 follows. This supplemental information was not audited by us and accordingly, we do not express an opinion on it. However, we have reviewed the compilation methods for mileage and passenger data and found them reliable.

Respectfully submitted,



ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CRAWFORD COUNTY TRANSPORTATION AUTHORITY
MILEAGE, VEHICLE HOURS AND PASSENGERS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Month ended	MILEAGE	VEHICLE HOURS	PASSENGERS	
			REGULAR	SENIOR CITIZEN
2003				
October	43,986	1,943	6,185	909
November	34,751	1,819	5,079	674
December	37,322	1,942	5,805	686
2004				
January	38,577	1,952	6,247	639
February	38,881	1,903	6,449	655
March	45,427	2,228	6,852	701
April	41,576	2,031	5,430	706
May	42,281	1,982	6,664	663
June	42,452	2,051	5,291	762
July	41,443	2,025	6,128	851
August	37,899	1,941	3,627	833
September	<u>40,618</u>	<u>1,917</u>	<u>5,282</u>	<u>741</u>
Totals	<u>485,213</u>	<u>23,734</u>	<u>69,039</u>	<u>8,820</u>

<u>HANDICAPPED</u>	<u>SENIOR/ HANDICAP</u>	<u>TOTAL</u>
1,457	271	8,822
933	194	6,880
985	250	7,726
998	144	8,028
993	164	8,261
1,349	233	9,135
1,302	193	7,631
1,301	153	8,781
1,234	268	7,555
929	213	8,121
978	232	5,670
<u>1,105</u>	<u>262</u>	<u>7,390</u>
<u>13,564</u>	<u>2,577</u>	<u>94,000</u>



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

December 2, 2004

Board of Directors
Crawford County Transportation Authority
4276 W. North Down River Road
Grayling, Michigan 49738

Dear Board:

We have audited the financial statements of the Crawford County Transportation Authority for the year ended September 30, 2004, and issued our report thereon dated December 2, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Crawford County Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Crawford County Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Segregation of Duties

The idea of segregation of duties is that two or more persons are part of a process, such as cash disbursements, so that if a mistake is made by one, it will become apparent to another within a reasonable time period.

Currently, the Authority has one person in the bookkeeping staff who is responsible for writing cash receipts received by mail, writing checks, recording cash receipts, cash disbursements, payroll, bank transfers and adjusting journal entries as well as preparing bank reconciliations.

Monthly financial statements, conveyance of bank transfers and cash receipts deposits, and signing of checks are done by Management personnel or the Board of Directors.

With the limited bookkeeping staff, the Authority has an inherent weakness in the internal controls related to the bookkeeping functions. Segregation of these duties should be made on a practical basis.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Page 3
Board of Directors
December 2, 2004

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, of the reportable conditions described above, we consider "Segregation of Duties" to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the Crawford County Transportation Authority in a separate letter dated December 2, 2004.

This report is intended for the information of the audit committee, management, the Board of Directors, and the State of Michigan, and is not intended to be, and should not be used by anyone other than these specified parties.

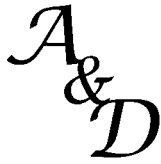


ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CRAWFORD COUNTY TRANSPORTATION AUTHORITY

REPORT TO MANAGEMENT

SEPTEMBER 30, 2004



Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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December 2, 2004

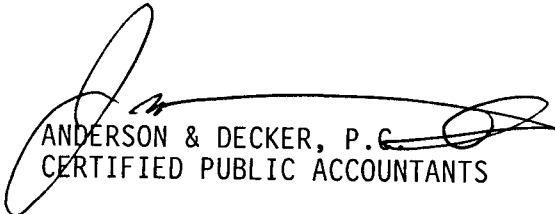
Board of Directors
Crawford County Transportation Authority
4276 W. North Down River Road
Grayling, Michigan 49738

In planning and performing our audit of the financial statements of the Crawford County Transportation Authority, as of and for the year ended September 30, 2004, we considered the Transit's accounting, operational, and internal control procedures to determine the nature and extent of our audit testing for the purpose of expressing an opinion on the financial statements of the Authority and not to provide assurance on the procedures themselves.

We did however, during the course of our audit, become aware of certain matters that are opportunities for enhancing those procedures or controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 2, 2004, on the financial statements of the Crawford County Transportation Authority.

We have already discussed these comments and suggestions with the Authority's personnel, and we will be pleased to discuss them in further detail at your convenience, and/or to perform any additional studies of these matters, should you so desire.

Sincerely,



ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS AND RECOMMENDATIONS

Dispatch Software

The Authority contracted with a software company for the purpose of developing dispatch software to be used in the Transit's operations. To date, a total of \$43,500 has been advanced to the Company. Originally the software was expected to be finalized in 2002. As of September 30, 2004, the final product has not been delivered. It is our understanding that the software is partially implemented and is expected to be fully implemented during the subsequent fiscal year. We recommend that if the Authority enters into contractual agreements of this nature in the future, a performance bond be required.